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Procurement from developing countries

Report of the Administrator

I. INTRODUCTION

1. The present report is submitted to the Executive Board pursuant to Governing Council decision 93/38 of 18 June 1993, which encourages the efforts of the Inter-agency Procurement Services Office (IAPSO), through the mechanism of the Inter-agency Procurement Working Group (IAPWG), to ensure geographical representation from suppliers of goods and services from developing and underutilized major donor countries. In particular, in response to paragraphs 7, 8, 9 and 10 of the decision, the present report provides information on efforts to: (a) increase procurement from developing and underutilized donor countries; (b) improve the accuracy of the statistical data provided to IAPSO; (c) improve existing procurement and supplier databases; and (d) improve rostering and short-listing procedures.

2. As used in the present report, the term "procurement" refers to the purchase of goods (equipment) and the subcontracting of professional services on the basis of country of purchase and not the origin of the item or service. The 1994 Annual Statistical Report, which is presented to the Executive Board as a separate report, includes information on additional input components, such as experts, United Nations Volunteers and fellowships.

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II. PROCUREMENT OVERVIEW

3. As shown in table 1 below, procurement of goods and services from developing countries, from all sources of United Nations funds, which had reached a level of about 30 per cent by 1991, has increased considerably in the past two years, mainly as a result of decentralized procurement by peace-keeping missions. It should be noted, however, that procurement by field missions was reported to IAPSO for the first time in 1993. The fact that field operations were, by necessity, limited to purchasing in or nearby their operational areas until early 1995, will also have prompted some commercial suppliers to adapt to this situation, thus artificially increasing the share of procurement from developing countries.

Table 1. United Nations system procurement from developing countries (all sources of funds)

(In millions of United States dollars)

Procurement	1991	1992	1993 a/	1994 a/
Total value of procurement	1 971	2 497	3 511	3 777
Value of procurement from developing countries	583	722	1 402	1 342
Value of procurement from developing countries as percentage of total value of procurement	29.6	28.9	39.9	35.5

a/ Includes decentralized procurement by peace-keeping operations.

4. The share of United Nations resources used to provide assistance for refugees and emergencies has increased drastically, as have expenditures on peace-keeping operations. As a result of the pressing needs to alleviate human distress and suffering, some of the other United Nations agencies normally involved in operational activities for development are increasingly carrying out emergency-related procurement activities. Those agencies generally do not separate the amount of such procurement from other procurement activities and only provide global estimates. It thus appears that in 1994 some 17 per cent of the total amount of procurement was for emergency operations and 28 per cent was for peace-keeping operations.

5. Procurement under UNDP funding, which increasingly is carried out under the mode of national execution, shows an encouraging trend towards an increased percentage of purchases from developing countries. The delegation of authority

for procurement to field operations by the United Nations Office for Project Services (UNOPS) and United Nations specialized agencies also reinforces this trend, as does the increased responsibilities delegated to UNDP country offices for procurement matters. Table 2 below illustrates the development over the past four years.

Table 2. UNDP-funded procurement from developing countries

(In millions of United States dollars)

Procurement	1991	1992	1993	1994
Total value of procurement	246	255	264	228
Value of procurement from developing countries	87	103	140	134
Value of procurement from developing countries as percentage of total value of procurement	35.4	40.4	53.0	58.8

Annual Statistical Report on Procurement by the United Nations system

6. IAPSO compiles annual statistical reports on procurement of goods, services and personnel components for use by the Economic and Social Council and the UNDP Executive Board. For the 1994 report, information was received from 35 United Nations organizations and 122 country offices. However, a number of reporting agencies provide data with extensive delays, a main obstacle to compiling an accurate, relevant and timely report.

7. The major system-wide constraint to accurate and timely reporting of data on procurement is that provision of statistics is not yet an integral part of the procurement process. Thus, data often must be retrieved manually. With the increased use of computerized procurement systems and codification, better reporting routines will be feasible in the future; IAPSO works closely with the United Nations system towards those necessary improvements. Another constraint is that more time is required to compile data by each agency, as a result of the increased decentralization of procurement, coupled with downsizing of staff due to general resource constraints. The reporting period constitutes another problem; financial closure of accounts is established for 31 March each year, and to report data on procurement prior to that date is impossible for many agencies. It is thus suggested that a consolidated report on procurement, including statistical information on purchases of goods and services, be submitted annually to the third regular session of the Executive Board.

III. MEASURES TAKEN BY THE UNITED NATIONS SYSTEM TO INCREASE GEOGRAPHICAL DISTRIBUTION OF PROCUREMENT

Inter-agency Procurement Services Office

8. The United Nations system has actively pursued the goal of increasing the geographical distribution of United Nations-system contracts, with particular emphasis on procurement from developing and underutilized major donor countries. As highlighted below, those objectives have been actively developed through the mechanism of IAPWG, for which IAPSO is the secretariat. In recent years, IAPWG has established the principle of holding its annual meetings on a rotating geographical basis between developing and industrialized countries, which affords the opportunity to conduct information seminars on the United Nations market and hold consultations between company representatives and United Nations procurement officers, in order to open the United Nations market to new potential sources of supply. The Republic of Korea will host the 1996 annual IAPWG meeting.

Market advice and information for the business community

9. Access to information on requirements for goods and services by United Nations agencies is an important mechanism to promote transparency in procurement. The General Business Guide, published annually in Englisn, French and Spanish by IAPSO, provides a general overview of procurement requirements by the United Nations system, together with the common principles and practices governing procurement. Considering the increased trend for decentralized procurement, contact addresses of country offices, and, beginning with the 1995 edition, field offices for peace-keeping operations, are also included. The General Business Guide is widely used in business seminars and other information events and is the major information tool used by IAPSO and United Nations agencies alike to inform companies about the United Nations market.

"Procurement update"

10. Increased advertising of United Nations requirements gives additional suppliers access to new business opportunities. "Procurement update", first published in 1990, has become a central source of information for the business community and a channel for United Nations agencies to publish advance business opportunities, procurement notices and contract awards. IAPSO encourages United Nations agencies to use the publication for procurement notices, but due to factors such as the urgency of some procurement requests and the small size of some orders, which do not lend themselves to advertising, success is limited. Moreover, some agencies pre-qualify suppliers and do not advertise as method of procurement.

11. Since July 1994, "Procurement update" has been published electronically as "Procurement update database", accessible by a modem. IAPSO's world-wide network of national focal points receive hard copies of "Procurement update" for dissemination of information locally. Through an arrangement whereby mailing costs are covered by national focal points, suppliers from underutilized major donor countries registered in the IAPSO database receive the publication.

The common vendor database

12. The IAPSO common vendor database (CVD) is a repository of information on more than 8,000 active suppliers from 143 countries; 27 per cent of the suppliers are from developing countries and 17 per cent are from underutilized major donor countries. The quality of information in the database is maintained by strict adherence to registration criteria and updating on a regular basis. IAPSO has experienced a much improved response by United Nations agencies to its requests for information, as well as a more active use of the database as a sourcing tool. An improved version of the CVD software is being developed to facilitate its use by agencies and updating of information.

The United Nations common coding system

13. The codes of the United Nations common coding system (UNCCS) are used to identify goods and services. To retrieve suppliers of specific goods and services in CVD, UNCCS codes are used as search criteria. UNCCS was designed to be used for procurement codification and statistical reporting. To facilitate the interchange of information between other international classification systems, IAPSO has developed correlations between UNCCS and the Harmonized System, the Standard International Trade Classification and the Community Procurement Vocabulary of the European Union. To serve the needs of users, a UNCCS maintenance secretariat is being established in 1995, with the help of funding from a donor Government.

Establishment of a network of national focal points

14. A network of national focal points has been established, based on an inventory of trade promotion organizations elaborated in the framework of a joint UNDP/International Trade Centre (ITC) programme. IAPSO selected those national bodies responsible for facilitating and promoting exports and routinely provided them with information on the United Nations market, such as the General Business Guide, the Annual Statistical Report and information on business opportunities through "Procurement update", as well as the UNCCS codes. Today IAPSO cooperates with over 300 national focal points, 254 of which are in developing countries. Some of the national focal points have become national project coordinators for technical assistance projects.

Cooperation with UNDP country offices to identify supply sources

15. The role of country offices in support of programmes and projects under national execution, including limited procurement, has been enhanced since late 1993. In support of those new responsibilities and to ensure direct access to United Nations supplier information, in 1994, IAPSO distributed, for the first time, copies of CVD on diskettes to country offices. Moreover, IAPSO provided the necessary software and instructions on how to establish local supplier rosters. Country offices are requested to report to IAPSO information on active suppliers with the capacity to export goods and services, at least to the region or subregion. This is a complementary source of information to increase the United Nations system's knowledge of suppliers in developing countries. In addition, catalogues of potential suppliers from underutilized major donor countries are distributed to country offices.

Country-specific technical assistance projects to promote procurement from suppliers in developing countries

16. The technical assistance projects, implemented by ITC, UNOPS or the concerned Government, with support from IAPSO, started with a pilot project in Brazil, followed by projects funded from the UNDP country allocations in Algeria, Argentina, Egypt, India, Indonesia, Kenya, Morocco, Nigeria, the Republic of Korea, Singapore, Tunisia, Turkey and Zimbabwe.

17. In 1994, IAPSO undertook an evaluation of past experience, which concluded that projects were effective in (a) building capacity at the level of the national executing agency, (b) building awareness in the local business community of the potential United Nations market and (c) informing United Nations agencies about potential supply sources in developing countries. Weaknesses, such as the lack of updating mechanisms for supplier information and training of counterpart personnel, were also identified in the programme countries. The results of the evaluation coincided well with those obtained by the former Central Evaluation Office on 21 national, regional and interregional trade-related projects in three continents. Future programmes in this area will address identified weaknesses.

Consolidated guidelines to promote procurement from developing and underutilized major donor countries

18. Within the framework of IAPWG, United Nations agencies have made concerted efforts to increase procurement from developing and underutilized major donor countries. Based on a proposal by IAPSO, consolidated guidelines were adopted to establish, inter alia, rostering and short-listing procedures. Those guidelines, which were adopted by the former Consultative Committee on Substantive Questions (Operational Activities) (CCSQ (OPS)), now the Consultative Committee on Programme and Operational Questions (CCPOQ), are of continued relevance. It should be stressed that although United Nations agencies make efforts to increase procurement from this target group of countries, those efforts will not override considerations of competitiveness.

Promotion of procurement from underutilized major donor countries

19. The concept "underutilized major donor countries" was developed by IAPSO to designate a major donor whose return value on contracts in relation to its voluntary contribution to UNDP is low, compared to that of other donor countries. The definition is reviewed regularly, on the basis of five-year average annual contributions and returns on contracts. Traditionally, the Nordic countries and the Netherlands belong to the category of underutilized major donor countries. IAPSO will seek ways of expanding the definition of underutilized major donor countries, in the context of all sources of funding.

20. Services provided to the business community of underutilized major donor countries, ranging from advisory services, business contact days, information seminars on the United Nations market, etc., all serve to increase the knowledge of the market represented by the United Nations system. In cooperation with national focal points, potential suppliers are registered and supplier

information is updated and published in country-specific catalogues, which are distributed to agencies' procurement offices and UNDP country offices.

21. In the areas of environment technologies and emergency relief preparedness, where IAPSO is active, underutilized major donor countries have the potential of developing a competitive position. As a follow-up to the United Nations Conference on Environment and Development, IAPSO has organized and participated in information events related to promoting knowledge of the environmental requirements of the United Nations system and has encouraged the registration of relevant supply sources. During the work on defining generic technical specifications for items required in the first phase of an emergency, IAPSO cooperated not only with United Nations agencies, but also with other humanitarian aid organizations with relevant experience, including organizations from the underutilized major donor countries. Through close cooperation with national focal points, information was made available and many suppliers have shown interest in developing product lines to respond to specifications established by the emergency relief sub-working groups.

Standardization and/or collective price arrangements for common user items

22. In an effort to reduce the variety of makes of models for certain equipment and in order to lower prices and improve delivery, IAPSO has established systematic cooperation on coordinated procurement of high-volume, commonly used items, based on system-wide harmonized product standards, a global search for the best prices and delivery conditions and administration of open-ended umbrella contracts for selected items. Those efforts are in line with the new focus of UNDP on coordination and integration, thereby increasing the efficiency and effectiveness of the United Nations system, and, in particular, procurement. In 1994, IAPSO introduced an environmental purchasing policy to the United Nations system through this mechanism.

23. The results of the coordinated procurement of common user items is a positive example of inter-agency cooperation. System-wide direct savings under that concept are estimated at $20 million on some 8,000 purchase orders in 1994, with additional benefits accruing on account of simplified administration and more transparent procedures. In addition, IAPSO makes special efforts to include suppliers of common user items from developing and underutilized major donor countries, on the basis of their adherence to established global standards, price competitiveness, existence of service networks, etc. To facilitate the introduction of new suppliers, IAPSO has proposed to IAPWG that new suppliers from developing and underutilized major donor countries be included as well, initially as subregional or regional suppliers, in the expectation of their capacity to become future global suppliers.

IV. PROPOSED FUTURE ACTION

24. The activities of IAPSO were recently reviewed by the United Nations Board of Auditors, and a report is expected shortly. In anticipation of the findings and recommendations of the Board of Auditors, IAPSO proposes to bring to the attention of the Executive Board, at its first regular session of 1996, any issues which may require Executive Board action.

25. Although important progress has been achieved in increasing procurement from developing countries by the measures outlined in this report, many external constraints remain, varying from export, currency and other regulatory barriers, to commercial constraints limiting competitiveness, such as lack of quality control, limited production and service capacity, packing etc. Measures taken by the United Nations system to increase procurement from developing countries are of a catalytic nature, and production and other commercial constraints have to be addressed by actions at the national or company levels.

26. IAPWG, at its twentieth annual meeting, held in Harare, Zimbabwe, in April 1995, stressed that measures to increase procurement from developing and underutilized major donor countries should be subordinate to considerations of competitiveness. This is in line with Governing Council decision 91/48, which concluded that the 15 per cent price preferential system for procurement from developing countries should be discontinued.

27. Within the framework of inter-agency cooperation, progress has been achieved in upgrading and maintaining supplier rosters in CVD, which is now used extensively in the United Nations system. The distribution of CVD to country offices for decentralized use, introduced in 1994, will be pursued and country offices will be supported in establishing local vendor rosters.

28. IAPSO will promote further use of advertising by United Nations agencies through its publication "Procurement update", which provides timely information on business opportunities and contract awards to the business community, and seeks new ways of increasing the information flow, especially through cooperation with country offices. IAPSO will also seek means of facilitating the global distribution of this information.

29. Provision of statistical information on procurement should become an integral part of the procurement process for all United Nations agencies. IAPWG is currently discussing revised common procurement principles in the context of the provisions of the United Nations Commission on International Trade Law Model Law on Procurement of Goods and Construction. A consolidated and relevant statistical report on procurement by the United Nations system can only be compiled in a timely manner if reporting by agencies is improved.

V. EXECUTIVE BOARD ACTION

30. The Executive Board may wish to:

1. Take note of the report of the Administrator on procurement from developing countries (DP/1995/55) and of the measures taken and progress made by the United Nations system to increase procurement from developing countries and to expand the geographical distribution of contracts;

2. Encourage the Inter-agency Procurement Services Office to continue to coordinate, through the Inter-agency Procurement Working Group-mechanism, efforts within the United Nations system to increase procurement from developing and underutilized major donor countries;

3. Recognize that increased decentralization of procurement, inter alia, under national execution of programmes, has significantly contributed to increasing procurement from developing countries;

4. Request the Economic and Social Council to encourage the organizations and agencies of the United Nations system to cooperate with IAPSO in improving the accuracy and timeliness of data provided for the annual reporting on procurement to the Executive Board and the Economic and Social Council.